

19th August 2021

Chairman's Review and Managing Director's Letter

Chairman's Review

Dear Fellow Shareholders,

This past year has been one of significant positive transition for your company. The ongoing drought and continued economic uncertainty of the Covid 19 Pandemic experienced at the start of this past financial year resulted in your company undertaking a series of defining initiatives over the past 12 months, which have now been completed and to date have been value accretive for our shareholders.

ARC is now a more financially robust company, with a new major shareholder, a new and exciting strategy and executive resources and capability, to help us capture the growth opportunities identified in our new strategy. I will now cover these elements in more detail below.

Financial Results

The company recorded an after-tax loss of \$577,486 for the full year to June 30, 2021. This was a result of the operating costs of a listed public company and the professional fees incurred in a series of corporate transactions of approximately \$397,000 and the reduced valuation of our investment in Namoi Cotton of approximately \$180,000, explained further below. These results are not surprising as the company continues to have a focus on operating costs. The company's cash levels at balance date were \$3.4 million.

Namoi Cotton Investment and Return of Capital

In January this year, our shareholders approved an in- specie distribution of 91.7 %, or 11,651,531 shares of our holding of 12,700,000 shares in Namoi Cotton Limited as a return of capital. This was completed in February on a pro rata basis of 9 Namoi Cotton shares for every 10 ARC shares held at the record date. The value attributed to these shares at the time was 30 cents per share.

The capital return and a subsequent further sale of Namoi Cotton shares reduced our holding from 12,700,000 to now 63,649 shares. This exercise concluded our strategic investment in Namoi Cotton with value preserved, and the majority of the investment now held directly by our shareholders. The accounting impact was to reduce the value of the holding against the previous period by \$180,000.

Share Placement

Following the distribution, in March, we received a number of unsolicited approaches to help recapitalise the company. Following consideration of the series of alternatives, we proceeded to undertake a 15% placement of new shares at 20 cents a share to raise approximately \$388,000 (before

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costs) to boost our working capital and cash position. This resulted in Capital H Management and Mr Harley Grosser becoming substantial shareholders of the Company.

Entitlement Offer and Recapitalisation

In May, the board received a proposal from Taylor Collison Limited to fully underwrite an entitlement offer to raise approximately \$3.127 million in new equity. The board proceeded with the capital raising to replenish the company's capital base, provide working capital and further funds to undertake new investments and acquisitions. The offer was done on a 1 new share for 1 share held ratio to existing shareholders at a price of 21 cents per share. The board wishes to thank all shareholders for your support, the issue was completed successfully in June with the introduction of several new shareholders and Capital H Management increasing its shareholding to 32.7%. The company wishes to thank Taylor Collison Limited for their services in conducting the offer.

Appointment of New Director and Managing Director

Following the increase in the shareholding of Capital H Management the board considered and appointed Mr Harley Grosser as its representative and Non- Independent Director to the board in early July. The company then worked on the refining a new strategic direction which resulted in the appointment of Harley as the new Managing Director of the Company, a role he commenced in late July. As noted in the ASX announcement, the board believes Harley brings extensive knowledge and skills in capital markets, financial analysis, valuation, building and operating an investment management business and investor relations, developed over the past 12 years.

I will now make the transition from the role of Executive Chairman to Non- Executive Chairman as the executive duties of the company will now rest with the role of Managing Director. This will be facilitated as previously announced during August of 2021. I look forward to working with Harley and enabling him, to focus on the development and growth of the business.

Development of a New Strategic Direction

Last week, we were able to finalise our New Vision and Strategy. Put simply this is as announced.

"To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies".

We believe a significant opportunity exists in the marketplace to execute on this strategy in identifying and partnering with emerging and existing talent and supporting them to grow and succeed. The positive fundamentals of this business model are compelling, as it is highly scalable, capital light and can leverage existing and new technologies to contain operating costs and potentially facilitate growth in funds. More detail is covered by Harley in his letter in this report, also please refer to our ASX release on August 12, 2021. "The New ARC "

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Merewether Capital Investment

In the first transaction under our new strategy, we also announced on August 12 that we had entered into an agreement to acquire a 40% interest of the newly created fund manager, Merewether Capital Management. The remaining 60% will be held by Founder, Luke Winchester. Luke is a well-regarded investor and portfolio manager with a focus on ASX listed micro-cap and small cap stocks. We are excited by the opportunity to work with Luke and support Merewether to become a successful boutique manager. More details on this investment are also covered in a previous ASX release, "ARC makes First Investment under New Strategy"

Name Change

In recognition of our new strategic direction and focus, the board is in the process of considering a change of company name for the company. The new name we are proposing is ARC Funds Limited. This name is more representative of our activities, and potentially enables us to retain our current ASX ticker code of ARC. This change, which requires regulatory approvals to progress, will also require shareholder approval at our upcoming Annual General Meeting.

Summary and Thanks

Again, I wish to thank my fellow directors, Darren and Wayne for their work, wise counsel, and input in a busy period. In a year that has been both demanding and finally rewarding. I welcome Harley and thank him for his support and significant efforts post balance date. We have remained resolute on our goal in preserving and creating value for our shareholders and with this objective in mind, I believe ARC is now better positioned than ever to continue in this quest.

I also wish to thank our company secretaries at Mertons, for their contributions and our various advisers with whom we have worked with over the past year for your help.

Finally, the Board wishes to thank all our shareholders for your interest and support, and we look forward to updating you on our progress.

Yours Sincerely,

James A Jackson

Chairman

August 19, 2021

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Managing Director's Letter**Dear Fellow Shareholders,**

As I write this, I am only three weeks into the role as Managing Director of ARC, but we have hit the ground running. In this letter, I wanted to give you a brief overview of what you should expect over the next 12 months as a shareholder of ARC.

Firstly, we will be completely focused on our new Company Vision, as outlined by our Chairman in the Chairman's Review.

We have a four-phase business plan designed to achieve this vision, which we have broken down for your viewing in an Investor Presentation shared with the ASX on 12th August, 2021.

Phase 1, which will keep us busy for at least the next 12 months, is all about identifying, investing in, and supporting the best funds management talent in Australia.

When we find them, we will provide them with the capital, support services, infrastructure, and guidance that they require to build successful boutique funds management businesses.

Our investment in Merewether Capital Management and its founder, Luke Winchester, represents the first major step towards achieving this new vision. I could not be more pleased to be partnering with an investor of Luke's calibre and I have every confidence in his and Merewether's success.

Our sole purpose is to ensure that our managers succeed, and we operate knowing that their success leads to our own. In time we hope that this feedback loop helps enforce our position as a Partner-Of-Choice in the boutique funds management industry.

Secondly, you should expect us to keep all shareholders regularly updated. While we won't release news simply for the sake of it, we will be sure to keep you informed and educated as to our progress.

Finally, you should expect us to act as business owners, running the company with a low-cost base and prioritizing capital allocation towards the success of our managers. This Founder-Owner mindset should be no surprise given the ARC board, directly and indirectly, owns 44.3% of the Company.

We are well capitalized, with a healthy balance sheet and sufficient capital to achieve our near-term goals. We have an attractive business model in an area of the market that we know well, and the team required to begin executing on our vision.

I am truly excited by the opportunity ahead of us and I look forward to updating you soon.

Harley Grosser

Managing Director

August 19, 2021

ENDS.

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By order of the Board of Directors.

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